BRITISH COLUMBIA
The Best Place on Earth

BCStats

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Exports ◆ September 2010

- The value of British Columbia origin exports climbed 12.9% over the first three quarters of 2010, compared to the same nine months a year earlier. Some of the strongest growth was to Pacific Rim countries, such as Mainland China (+39.5%), Hong Kong (+19.0%), Japan (+17.9%) and Australia (+34.8%). Exports to the European Union jumped 19.8%, including a 61.9% boost in shipments to Germany (due largely to increased coal shipments). Exports to BC's largest trading partner, the United States, grew a more modest 3.9%.

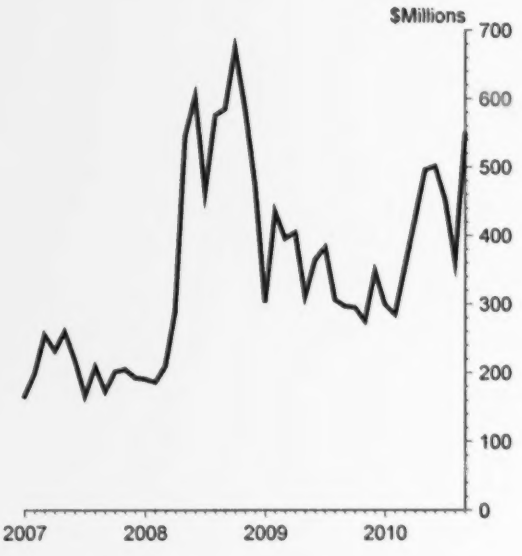
- Metallic mineral products have experienced the strongest growth in exports, with shipments rising 31.0% year-to-date over the first three quarters. Copper ores and concentrates (+32.1%), unwrought zinc (+52.2%), molybdenum ores and concentrates (+30.4%), unwrought aluminum (+7.9%) and other metallic mineral products (+34.7%) all experienced robust growth in exports. However, exports of fabricated metal products fell 5.2%.

- BC's forest sector has performed far better than last year with exports of solid wood products increasing 22.5% year-to-date and shipments of pulp and paper products rising 12.2%. A jump in exports of softwood lumber (+28.2%) has driven most of the growth in solid wood exports, although logs (+52.4%) and "other" solid wood products (+28.5%) have also experienced significant increases in shipments. Pulp (+39.4%) has been responsible for all the growth in pulp and paper exports as paper exports have slumped 25.7%.

- Shipments of energy products climbed 17.2% over the first three quarters of 2010 compared to the same period a year earlier. Electricity bucked the trend as exports of that good slipped 2.1%, but there was strong growth in exports of coal (+16.5%), natural gas (+14.2%) and other energy products (+48.1%). Shipments of coal soared 84.9% in September compared to the same month a year earlier.

- Exports of machinery and equipment edged up 1.1%, thanks mainly to strong growth in September (+20.1% compared to September 2009). Agriculture and food (+3.3%) and fish product exports (+6.9%) also experienced growth.

BC's exports of coal have increased significantly in recent months

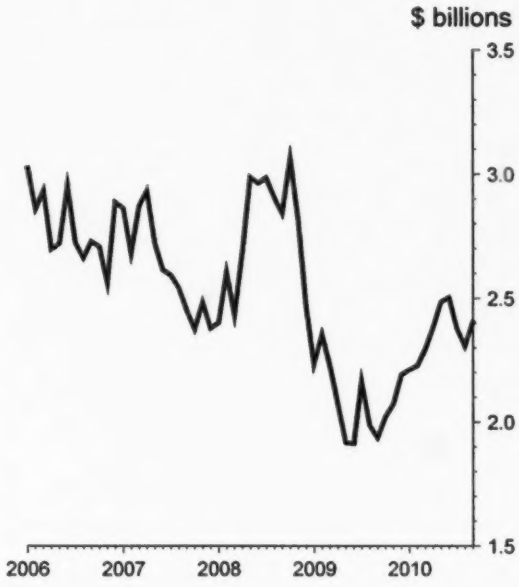


SEASONALLY ADJUSTED EXPORTS

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

- BC's exports rebounded somewhat in September, rising 4.1%, despite a 7.6% drop in shipments to the United States. Exports to other destinations climbed 15.6%.
- The main driver of the overall increase was a 16.6% jump in shipments of energy products. Exports of energy to the United States fell 33.7%, but this was offset by a 63.4% spike in shipments to other destinations. Coal accounted for much of the jump. Exports of agriculture and fish products also saw robust growth (+10.2%), while shipments of industrial and consumer goods fell 6.5%.

Exports (adjusted for seasonality) rebounded somewhat in September



BC Exports, Seasonally Adjusted ($Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery& Equip, Auto	Industrial, Consumer	Total	Exports to USA
Sep 2008	203	867	810	327	634	2,842	1,408
Oct	220	1,019	842	348	630	3,060	1,569
Nov	211	931	745	344	585	2,815	1,431
Dec	207	780	696	323	463	2,469	1,299
Jan 2009	211	610	642	302	470	2,235	1,230
Feb	209	748	623	288	487	2,355	1,223
Mar	200	619	600	272	535	2,226	1,102
Apr	194	566	606	267	437	2,071	1,056
May	197	488	558	273	401	1,916	1,047
Jun	194	485	550	254	430	1,913	988
Jul	207	618	581	271	486	2,163	1,046
Aug	177	510	585	250	463	1,986	1,006
Sep	166	497	580	226	468	1,937	1,011
Oct	185	484	585	246	522	2,022	1,035
Nov	177	507	601	249	539	2,072	1,075
Dec	178	592	616	261	543	2,191	1,087
Jan 2010	177	622	645	258	506	2,210	1,116
Feb	191	573	679	246	538	2,227	1,085
Mar	191	592	679	255	577	2,294	1,131
Apr	186	660	717	263	554	2,380	1,118
May	185	715	738	260	586	2,485	1,155
Jun	187	736	776	270	534	2,503	1,202
Jul	196	711	710	270	492	2,378	1,087
Aug	208	640	681	265	513	2,306	1,138
Sep	229	746	673	275	479	2,402	1,052

The Buck Stops Where? Are We in a Global Currency War?

Currency manipulation is becoming a growing threat to global economic recovery as countries engage in competitive devaluation policies that are reminiscent of those that occurred in the 1930s. In order to prop up falling exports, many countries are intervening in the market to reduce the value of their currency using means such as cutting interest rates, buying foreign currency, printing more domestic currency and putting restrictions on foreign investment. This race to the bottom has been labelled by Brazilian Finance Minister Guido Mantega as a "currency war." Mantega has proposed the creation of a "currency manipulation index" that would be monitored by the International Monetary Fund (IMF). Those countries found guilty of currency manipulation would be subject to World Trade Organization (WTO) sanctions.

The real concern over currency manipulation is that it will lead to widespread protectionism and that tit for tat devaluations will interfere with the workings of foreign-exchange markets. For a country as dependent on trade as Canada, this is a serious concern. Export dependent nations such as Canada, New Zealand and Australia have experienced significant appreciation of their currencies in recent years. The movement of these three currencies has followed a similar pattern over the last decade. While all of them depreciated during the trough of the global economic slump as investors took shelter in the US dollar, they have since rebounded with both the Canadian and Australian dollars flirting with par with the US greenback in the last few months.

The currencies of exporting nations such as Canada, Australia and New Zealand have appreciated significantly over the last decade

Source: UBC Sauder School of Business

One country that has borne the brunt of criticism has been China. For many years, the Chinese yuan was pegged to the US dollar. Since the yuan was not allowed to float freely, this created a substantial trade imbalance, not only between the United States and China, but also between other countries and China, including Canada. Since China did not allow their currency to appreciate as dictated by market forces, it meant that the cost of Chinese imports were unaffected by exchange rates, which essentially gave China an unfair advantage. In a normal market situation, the rise in demand for a country's products would result in a corresponding increase in value of the country's currency. This would in turn increase the cost of those goods to foreign buyers. Eventually the marketplace should achieve some sort of balance, but with the value of the yuan kept artifi-

cially low, this means that the normal market mechanisms are not allowed to work and Chinese goods are also priced artificially low, which gives Chinese producers an advantage over their foreign competitors.

China has been hesitant to allow the yuan float freely

Source: UBC Sauder School of Business

In 2005, China partially gave in to pressure to allow its currency to float by permitting the value of the yuan to fluctuate within a narrow band based on a basket of currencies. Over the following three years, the yuan appreciated significantly, but in the midst of the economic crisis in 2008, China once again pegged the yuan to the US dollar in an attempt to shield its exporters from the global slump. It was only in June of 2010 that the yuan was allowed more exchange-rate flexibility, yet it is still restrained and has only appreciated around 2% over the last several months, which has drawn more criticism from the United States and other nations. The frustration felt by the American government over this situation led them to approve a measure that would give Washington the power to penalize governments that practise currency manipulation. Ironically, this move has resulted in accusations by the Chinese government that this measure is tantamount to protectionism.

The United States is also being criticized for its policy of "quantitative easing," which essentially means that they are putting more money into circulation by buying government bonds. The result of putting more money into circulation is that the money currently in circulation will lose some of its value. In other words, quantitative easing results in currency depreciation, which in turn makes American exports cheaper for foreign buyers. As one economist noted, "The US is doing a lot of screaming about currency manipulation, but it's the one doing the manipulating."[1]

However, China and the United States are not the only countries involved in currency manipulation. In the last month, Japan, South Korea and Brazil have all stepped in to limit the appreciation of their currencies and other countries have also been involved in some form of currency manipulation in the last year.

For Canada, this has resulted in an artificially high value for the loonie, which is having a negative impact on the country's exporters. If these policies continue, there is the potential that it could devolve into a global trade war, which could derail the economy once more. This begs the question, where will the buck stop?

[1] Dr. Ken Courtis, former vice-chairman of Asia for Goldman Sachs, quoted in: Hartcher, Peter, "We may have landed the booby prize in the currency wars," *The Age*, October 19, 2010 (www.theage.com.au).

Recent Feature Articles in Exports Release
Listed by Statistical Reference Date of Issue

10-09 *The Buck Stops Where? Are We in a Global Currency War?* *(released November 2010)*

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10-07 *What Could Japan's Economic Woes Mean for Trade with BC?* *(released September 2010)*

10-06 *Fifty Years of BC Exports: 1959 - 2009* *(released August 2010)*

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10-02 *Economic Downturn Kept the Lid on Container Traffic in 2009* *(released April 2010)*

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09-07 *Energy Exports are Powering Down...For Now* *(released September 2009)*

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NOTES

Countries Included Within World Regions:

(1) Western Europe: United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) Eastern Europe: other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) South East Asia: Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) Africa: continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) South America: continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) Central America and Caribbean: from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) Pacific Rim (including Japan): Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) Pacific Rim: as above, but excluding Japan.

(9) Middle East: from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

The **European Union** is the membership as of January 1, 2007: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

'Selected Value-added Wood Products' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc) as well as with the release of the January and February data.

Service Offered for Detailed Trade Statistics

For BC government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

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This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for BC, Canada, the United States and other countries. Tabulations can include information on commodities, countries, US states, years, months, mode of transport, etc.